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County Clerk

ELIZABETH A. STARBUCK

Assistant Auditor/Controller-Recorder
Assistant County Clerk

May 27, 2009

Laurie Rozko, Interim Director
Purchasing Department
777 East Rialto Avenue
San Bernardino, CA 92415-0760

SUBJECT: AUDIT OF PURCHASING'S CAL CARD PROGRAM ADMINISTRATION

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter and the Board of Supervisor's Policy Statement 02-02 on Internal Operational Auditing, we have completed an audit of the Purchasing Department's Cal Card program administration. Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Background

In December of 2008, the Purchasing Department requested an operational audit of their policies, procedures and oversight over the administration of the Cal Card program. The Cal Card program is a State program administered by U.S. Bank. In addition, the audit was to verify Purchasing's compliance with the administrative procedures listed within the County's Procurement Manual and the Procurement Card Program Procedures Manual.

Objectives, Scope and Methodology

Our overall objective was to determine whether the Purchasing Department was effectively and efficiently administering Cal Cards. Specific audit objectives were to determine whether:

1. Cal Card administrative practices comply with the County's Procurement and Procurement Card Program manuals.
2. Internal controls practiced effectively safeguard County assets.

We reviewed administrative practices and internal controls over Cal Cards for the period of December 1, 2008 through January 31, 2009. Our audit included review of policies and procedures, review of pertinent documents, interviews with staff, and verification of records.

Conclusion

As a result of our analysis and the tests performed, we concluded that the Purchasing department was effectively and efficiently administering Cal Cards with the exception of the items listed below:

1. Duties were not always segregated.
2. Review of the program administrator's work was not always completed.
3. The County's Procurement Card Program Manual did not always clearly state what procedures should be used.

Our recommendations for improvement are in the Findings and Recommendations section of this report.

We sent a draft report to the department on April 27, 2009 and discussed our observations with management on April 30, 2009. The department's responses to our recommendations are included in this report.

Findings and Recommendations

Finding 1: Lack of Segregation of Duties

Per the Internal Controls and Cash Manual Chapter 2—Internal Controls, no one person should be assigned concurrent duties that would allow him/her complete control over a transaction or an asset. Also, per the County Procurement Card Program Procedures Manual, the Program Administrator should review requests received, clarify or modify each request in conjunction with the requesting department and forward to the Cal Card committee for their approval or denial of the Cal Card request. As a result of our audit, we noted the following:

- The Program Administrator who maintains the cards is also a Committee Member.
- The Fiscal Specialist in the Auditor/Controller-Recorder's (ACR) Accounts Payable who approves payments is also a Committee Member.
- Out of 60 randomly sampled Cal Cards, Committee Members' approvals were not obtained:
 - For 16 cards requesting establishment/issuance.
 - For 3 Cal Card holders' change in dollar limits (one Cal Card's 30 day dollar limit was increased from \$15,000 to \$25,000 by an email sent from the Supervisor of the User without obtaining the other Committee Members' approval).

Segregation of duties, specifically who can and cannot be a committee member, is not addressed in the County Procurement Card Program Procedures Manual. The

department's staff was unaware that they should follow the internal control guidelines over cash and cash equivalents listed in the ICCM in Chapter 2.

In addition, the lack of response by committee members that are not involved in the card issuance and payment processes and the pressure on the Program Administrator from outside departments to receive their cards in a timely manner resulted in the Administrator allowing cards to be requested/updated without the Committee's approval.

Recommendation:

The Program Administrator and Fiscal Specialist should not be regular Committee Members that can approve requests.

In addition, management must ensure that committee members formally approve all requests, as stated in the County Procurement Card Program Procedures Manual, before cards are issued or modified.

Management's Response:

The Purchasing Department agrees with the Recommendation. The Purchasing Department administers the CAL-Card Program in conjunction with the Auditor/Controller-Recorder (ACR) and the CAL-Card Committee. The Committee members currently consist of two staff from ACR (Accounts Payable Manager and Fiscal Specialist) and two staff members from Purchasing (Supervising Buyer and Buyer III, known as the Program Administrator).

Currently, the Program Administrator receives written/email requests from departments to change card limits, to issue new cards, or cancel existing cards. These requests are not accepted for review unless they come from the department's Program Coordinator, Approving Official, or Department Head.

A new procedure will be implemented after the June 2009 CAL-Card Committee Meeting so that when the requests are received, the Program Administrator will forward them to the Supervising Buyer or Accounts Payable Manager with a recommendation to approve or deny the request and the reason to do so.

The Program Administrator will keep documentation of the approvals or denials of these requests. If changes to the cards are approved, the Program Administrator will make the changes and if a card limit change is temporary, will change the limits back as soon as is practicable.

Please note that although the Program Administrator has been changing the card limits up to \$3,000 for a single transaction after receiving the request, the Program Administrator is not able to use or otherwise create transactions on the card. Please also note that any requested limits over \$3,000 for a single transaction are approved by a CAO Analyst in accordance the Procurement Card Manual.

At their next meeting in June 2009, the CAL-Card Committee will discuss segregation of duties in order to update the Procurement Card Manual which is currently silent on the subject or responsibility for approval of transaction limit changes less than the \$3,000 limit and after card issuance.

Any changes to procedures and the Procurement Card Program and Manual will be approved and implemented by the Committee.

Auditor's Response:

The Department's planned actions will correct the deficiencies noted in the finding.

Finding 2: Lack of Review of Program Administrator Duties

Per the County's Procurement Card Program Procedures Manual, the Program Administrator must:

- Provide ACR Accounts Payable with a weekly report of canceled cards.
- Review monthly and quarterly reports for compliance with policies and procedures.

Our review disclosed that:

- The Program Administrator was not always providing the ACR a weekly report of cancelled Cal Cards.
- A review of monthly and quarterly reports for compliance with policies and procedures was not performed by the Program Administrator.
- The Program Administrator was not always updating or notifying U.S. Bank immediately or accurately of modified dollar limits or card cancellations.

Out of 60 randomly selected Cal Cards:

- Four Cal Card Agreements did not exist.
- Four receipts for new Cal Cards did not exist.
- A department requested a card be cancelled and we found that it was still active on the U.S. Bank website.
- A Cal Card's dollar limit on the U.S. Bank website did not match the Cal Card Request.

Lack of review may result in ineffective management of Cal Cards. In addition, errors and irregularities could go undetected leading to susceptibility for theft.

Recommendation:

An independent person of a higher-ranking job code must periodically review the Program Administrator's work and sign off on the review. This independent review will help to ensure that Cal Cards have been correctly input to US Bank, properly maintained and adequately documented.

Management's Response:

The Purchasing Department agrees with the recommendation that a person of a higher-ranking job status must periodically review the Program Administrator's work and sign off on the review.

The Program Administrator will bring the following items to the June 2009 CAL-Card Committee meeting for review, approval, and for changes to the Procurement Card Program Manual. Specific duties of ACR and Purchasing can also be clarified.

A procedure will be implemented beginning in June 2009 for the Supervising Buyer, Analyst, or Administrative Supervisor of the Purchasing Department to document a review of the Program Administrator's work on a quarterly basis. The review will include:

1. Documentation that the Program Administrator provided ACR monthly reports of cancelled CAL-Cards during the period under review. Because of the small number of cancellations in a week's time, monthly reports are recommended.
2. Documentation that U.S. Bank was immediately notified of card cancellations and modified dollar limits. A match will be maintained between the Program Administrator's files and the card limits or cancellations on the U.S. Bank website.
3. Documentation that the Program Administrator reviewed monthly reports for compliance with CAL-Card policies and procedures and Purchasing policies and procedures.

ACR reviews the CAL-Card packets monthly and notifies departments and the Program Administrator of transactions that appear to violate policies such as the purchase of restricted services. Due to the volume, the Program Administrator will not duplicate ACR efforts, but instead will focus on monthly reports of:

- A. Spend by vendor to determine if departments need blanket purchase orders or whether transactions are for items already under contract.
 - B. Changes to CAL-Cards including new cards, cancellations, and changed spending limits and ensure documentation of appropriate approvals.
 - C. Declined transactions to determine whether the attempted transaction was a violation of CAL-Card or Purchasing policies or whether the transacting department needs limit changes to their CAL-Cards.
4. Documentation showing the Program Administrator performed random audits of departments CAL-Card files to ensure complete documentation for CAL-Card purchases and compliance with the County's retention schedule.
 5. Documentation that the CAL-Card files maintained by the Program Administrator are complete, accurate, and contain CAL-Card Agreements, receipts for new CAL-Cards, and requests for changes including cancellations.

Auditor's Response:

The Department's planned actions will correct the deficiencies noted in the finding.

Finding 3: Lack of Clarity in Procurement Card Procedures

Our review disclosed that the existing Procurement Procedures Manual did not include specific instructions for all tasks and for all necessary internal controls.

- Canceled cards were required by the manual to be hand carried to Purchasing. The manual did not have an alternate procedure for non-local departments. Active cards were frequently sent intact through the interoffice mail and accepted by the Program Administrator.
- The manual required sanctions to be performed on Cal Card violators. However, it was not clear what action should be taken, when, and by whom. In the Cal Card training, exact actions were specified. However, they were not added to the manual and were not carried out consistently. Out of 13 Cal Card violations, no sanctions were placed on 6 cardholders. For one specific card, it was the third offense but the Committee did not discipline the individual.
- Cardholders are required to sign a Cardholder Agreement, to acknowledge compliance with the Procurement Card Procedures manual, before receipt of the physical Cal Card. The Program Administrator did not keep a copy of the signed Cardholder Agreement before allowing the user to take the original agreement back to his department to get his supervisor's signature. The manual does not require this control. However, without this copy, Purchasing has no proof that the cardholder agreed to the Cal Card rules if the supervisory signed copy is not returned.

Not having clear, written guidelines may allow cardholders to misinterpret proper Cal Card rules and override necessary internal controls.

Recommendation:

The Cal Card Committee should amend the existing Procurement Card Procedures Manual to include controls over:

- Returning canceled cards through interoffice mail.
- Required actions when Cal Card violations occur especially what kind, when they should be applied, and by whom.
- Keeping a copy of the Cardholder Agreement after obtaining user's signature.

In addition, Purchasing should communicate the new procedures to current and future cardholders.

Management's Response:

The Purchasing Department agrees with the recommendations to add procedures and amend the Procurement Card Manual accordingly. The following changes will be discussed at the next CAL-Card Committee meeting:

- Additional language with specific procedures for cancelled cards that are returned to the Program Administrator, specifically regarding the use of interoffice mail
- Additional language to specify actions taken for various CAL-Card violations, including specific disciplinary actions, the progression of discipline, and responsibility for implementing action.

The Program Administrator will also keep a copy of the Cardholder Agreement while signatures are being obtained, and this procedure will be clarified in the Procurement Card Manual. The Program Administrator will notify all procurement card program coordinators in County departments of the updated procedures.

Auditor's Response:

The Department's planned actions will correct the deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: Howard Ochi, CPA
Chief Deputy Auditor
Internal Audits Section

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